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DE RUEHYN #1425/01 2051009
ZNR UUUUU ZZH
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FM AMEMBASSY SANAA
TO RUEHC/SECSTATE WASHDC 7669
INFO RUEAWJA/DEPT OF JUSTICE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFHLC/DEPT OF HOMELAND SECURITY WASHINGTON DC
RHMCSUU/FBI WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC

UNCLAS SANAA 001425

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STATE FOR S/CT (NOVIS/GALER), INL (BRANDOLINO/RINDLER),
NEA/ARP

E.O. 12958: N/A

TAGS: [KTFN](#) [KCRM](#) [PREL](#) [PTER](#) [SNAR](#) [EFIN](#) [YM](#)

SUBJECT: PART FOUR OF FOUR: RESULTS OF FINANCIAL SYSTEMS
ASSESSMENT TEAM VISIT TO YEMEN MAR 1-7, 2007

REF: A. SANAA 1418
[B](#). SANAA 1423
[C](#). SANAA 1424

[1](#)1. Summary. A multi-agency Financial Systems Assessment Team (FSAT) conducted a week-long, in-country evaluation of Yemen's capacity to combat money laundering and terrorist financing, in order to determine its most critical training and technical assistance needs on March 1-7, 2007. This fourth and final section of the FSAT Team's report focuses on the ROYG's Customs Authority and Tax Authority.

[1](#)2. Summary continued. This section also contains the conclusion of the FSAT Team's report and recommendations for training. The FSAT Team concluded that Yemen is at the initial stages of developing an anti-money laundering and counter-terrorist financing regime and Yemen needs to closely monitor the money exchange service, NGO, and non-bank informal sectors. The FSAT Team recommended training the Central Bank and the Anti-Money Laundering Information Unit (AMLIU) on legal drafting, anti-money laundering financial examinations, and detection/reporting of suspicious transactions. End summary

CUSTOMS

[1](#)3. The Customs Authority (CA) is responsible for controlling all persons and goods entering and leaving Yemen. The CA has inspection, detention and investigative authorities, which is unique in the region. The CA's Inspection Directorate is responsible for smuggling, money laundering and other related issues.

[1](#)4. The CA, however, does not have a specialized Inspector Corps; rather, Customs officers are rotated through various positions and directorates. While the CA has the authority to detain goods, it currently does not use financial tools or investigations to pursue bulk cash smuggling or trade-based money laundering, which were both identified as areas of high risk. Most investigations are initiated from tipoffs, and in many cases officers are subjected to bribery attempts.

[1](#)5. The CA does not currently have either an inbound or outbound reporting requirement, but it does collect standard trade and shipping data.

[1](#)6. Yemen has 1,906 km (1,184 miles) of sea borders and 1,746 km (1,085 miles) of land borders with Saudi Arabia and Oman.

The borders are largely unguarded and smuggling is rampant. While the CA, with 2,100 employees, maintains 25 entry points (by air, land and sea), it is clear that its reach is extremely limited. Smuggling is rampant along Yemen's sea border with Oman, across the Red Sea from the Horn of Africa and along the land border with Saudi Arabia.

¶7. Yemen engages in both bilateral and multilateral agreements with its neighbors to share information on regional security concerns (e.g., Arab Convention on the Suppression of Terrorism, and the Convention of the Organization of the Islamic Conference on Combating International Terrorism). In addition, the CA claims to keep particular watch on specific individuals of concern, as well as monitoring flows of money and goods to and from specific countries of concern.

¶8. The intelligence service, the Political Security Organization, and CA agree that the threat of terrorist financing and money laundering exists largely through cash couriers. At present, Yemen has no cash declarations or disclosure requirements into or out of the country. According to the CA, a cash declaration form exists, but it is used only after money has been discovered by Customs authorities at the border.

¶9. Corruption and bribery are rampant in Yemen. The CA is encouraged by the idea of providing incentives for border seizures, but given the high levels of corruption across all levels of Yemeni society, it is unclear how such a system can be conducted in a transparent manner.

Training Opportunities

¶10. If and when Yemen institutes outbound and inbound reporting of cash and bulk couriers, training should be considered. Alternatively, training could be conducted on how to set up a cash courier regime.

¶11. Joint training would be most beneficial for CA, with other agencies such as the Coast Guard working border control issues. They could benefit from training in interviewing and basic investigative techniques. In particular, the CA could benefit from training on how to identify "red flags" for individuals who should be selected for closer scrutiny either entering or departing Yemen.

¶12. The CA also requested information regarding incentive programs for officers to apply the law properly and to encourage citizens to report violations.

TAX AUTHORITY

¶13. The Tax Authority (TA) includes a directorate responsible for tax evasion. The TA noted that Yemen has both a corporate income tax and a sales tax. The TA has been working to reduce tax evasion through a program of reducing overall tax rates, instituting exemptions, and increasing the tax requirements on businesses, who pay the bulk of Yemeni taxes.

¶14. As in the case of other ROYG law enforcement agencies, the TA does not currently have the capacity to conduct financial investigations or apply financial tools in its efforts to combat tax evasion. For example, the TA noted that in the case of tax evasion related to cigarettes, it will intervene only at the last point of sale (after receiving a tip). For a first offense, a warning will be issued. Afterwards, a series of graduated fines is applied (e.g., four times the tax). Although the law provides for a jail term of six months, this penalty has never been applied.

¶15. There is no current capability in the TA to conduct financial investigations to determine who else might be associated with tax evasion, locate the illicit proceeds, or identify, freeze, and seize assets related to tax evasion.

Training Opportunities

¶16. The TA would benefit from forensic accounting and financial investigative training (including the use of net worth analysis).

CONCLUSION AND RECOMMENDED TRAINING

¶17. Yemen is currently in the initial stages of developing an anti-money laundering and counter-terrorist financing regime. A number of other factors must also be considered in considering AML/CTF training for Yemen. These include the lack of a law that meets international standards, the need for systemic legal reform and limited AML/CTF institutions.

¶18. In addition, the FSAT team noted a number of areas of concern that should continue to be monitored. These include: a largely unregulated money exchange service sector including both currency exchange and fund transfer services; limited capacity to monitor and control risks in the NGO sector to terrorist financing and financial fraud; and a non-bank informal banking sector that is in the beginning stages of increasing bank penetration. In addition, there are bureaucratic delays in implementing UNSCR 1267.

¶19. Resources permitting, the FSAT team, however, believes that training at the appropriate level is both feasible and recommended. The FSAT believes that initial efforts should focus on the Central Bank and the AMLIU. In particular, FSAT recommends that initial training should be concentrated on the areas outlined below.

¶20. Legal Drafting Assistance: Several interlocutors stated that they would welcome U.S. comments on the proposed new law

to ensure that it meets international standards. Comments could be sent from Washington via official channels, with an additional on-site consultation/stakeholder meeting if necessary.

¶21. Financial Examinations: Additional training on how to conduct anti-money laundering examinations for the Central Bank and the AMLIU would be extremely beneficial in promoting ROYG's overall AML/CTF efforts (this is an intensive one-week practical examination-based course designed to train trainers). Training is conducted in Washington and is generally limited to 4-6 persons per country.

¶22. Training in Detection and Reporting Suspicious Transactions: This training could be conducted as either a stand-alone course or as part of the Financial Examination course referenced above.

¶23. In addition, the Government of Spain and the EU may be receptive to a similar visit to the Spanish Financial Intelligence Unit (SEPBLAC). This should be pursued in addition to the FinCEN visit.

BRYAN